

Tishman Speyer Lost \$3 Billion on Stuyvesant Town, Study Shows



By Oshrat Carmiel and Patricia Hurtado

Sept. 10 (Bloomberg) -- Tishman Speyer Properties LP has lost more than \$3.2 billion on the Stuyvesant Town-Peter Cooper Village apartment complex and is at risk of defaulting on its loans, according to credit rating company Realpoint LLC.

The 80-acre property, bought for \$5.4 billion in 2006, has a market value of about \$2.13 billion, Realpoint said. Today Tishman Speyer's lawyers will be in the New York State Court of Appeals asking a judge to reverse a lower court decision that said it didn't have the right to deregulate more than 4,000 apartments and raise rents for some tenants.

Realpoint's valuation is based on an assumption that Tishman Speyer and its partner in the transaction, BlackRock Realty LP, won't be able to carry out their strategy of converting rent regulated units to market rates, said [Steve Kuritz](#), senior vice president at Horsham, Pennsylvania-based Realpoint. Tishman Speyer obtained financing for the purchase based on plans to increase some rents.

"If the decision is upheld by the [Court of Appeals](#), it will make it difficult, if not impossible for the developers to continue to pay their debt service," Bret Salzer, managing principal at [FrontView Advisors LLC](#), a real estate investment firm in New York, said in an e-mail.

Tishman helped finance the purchase with a \$3 billion loan that was bundled into commercial mortgage backed securities.

Rent Increases

The lawsuit was brought by [tenants](#) who claimed Tishman and the previous owner, insurer [MetLife Inc.](#), improperly forced at least 25 percent of the units in the complexes to pay market rate rents while the landlords received more than \$25 million in J-51 tax abatements. The city [J-51 program](#) provides tax breaks to landlords that upgrade their buildings.

New York State Supreme Court Justice [Richard Lowe](#), in Manhattan, dismissed the tenants' original lawsuit in 2007. A Manhattan appeals court later reinstated the suit and ruled on the tenants' behalf. [Bud Perrone](#), a spokesman for Tishman Speyer said: "We remain firmly

convinced that Justice Lowe's initial decision to dismiss the lawsuit was the correct one and appreciate the opportunity to present our case to the Court of Appeals."

Under Kuritz's \$2.13 billion valuation, Tishman owes more to bondholders than the apartment complex is worth. Investors in an additional \$1.4 billion mezzanine loan borrowed to finance the deal are "wiped out," Kuritz said.

Values Fall

"When you have such substantial differences in values, the borrower, their only option really is to just turn it over" to the lender, Kuritz said.

After the March ruling, Tishman halted plans to deregulate rent stabilized apartments, which reduced the income it was relying on to pay debt.

Tishman has "essentially depleted" a \$400 million reserve fund set up in 2006, after using it to make loan payments, Fitch Ratings Service said in a report on Aug. 28. About \$49 million remains in that fund and it could run out by the end of the year, Fitch said in report in which it downgraded four issues of commercial mortgage-backed securities on the property.

Default isn't the only consequence if Tishman Speyer loses its appeal. A ruling for the tenants could mean the company will have to pay hundreds of millions of dollars in rent rebates to tenants, said tenant lawyer [Alexander Schmidt](#) in an e-mail. Under New York State law, the tenants can seek triple damages if they prevail in the state's highest court.

Restructuring Likely

[Rob Speyer](#), co-chief executive officer of Tishman Speyer, said in an interview published in the New York Times yesterday that it's likely the debt on the complex will need to be restructured.

One-bedroom apartments at Stuyvesant Town start at \$2,333 a month, according to a [Web site](#) for the property. Two-bedrooms start at \$3,304 and three-bedrooms at \$3,713. Those prices include two months of free rent on some units. The apartments are "spacious and contemporary" and reflect "the ultimate living experience in Manhattan," the Web site says.

An immediate court decision isn't expected. The court typically issues decisions within six weeks of a hearing, said Gary Spencer, a court spokesman.

The case is Amy Roberts v. Tishman Speyer Properties LP, 100956/2007, filed in New York State Supreme Court (Manhattan).